# INTERNAL CONTROL POLICY

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<th><strong>Policy Sponsor:</strong></th>
<th>Chief Risk Officer</th>
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<td><strong>Policy Authors:</strong></td>
<td>ERM Unit</td>
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<td><strong>Policy Category</strong></td>
<td>Level 1 Risk Policy</td>
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<td><strong>Policy Custodian</strong></td>
<td>GRA</td>
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<td><strong>Effective Date:</strong></td>
<td>February 2013</td>
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<tr>
<td><strong>Review Date:</strong></td>
<td>February 2015</td>
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<td><strong>Version:</strong></td>
<td>Final</td>
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Policy Compliance
Consistent compliance with this policy is essential to its effectiveness. The DBSA Group, including all Staff, Management and Executives are expected to adhere to this policy. The ERM Unit will monitor and assess the compliance of all the Divisions, Clusters and Business Units and report annually to Senior Management. Non-compliance or breach of this policy may result in disciplinary action in accordance with the Bank’s Disciplinary Code and Procedure.

Policy Revision
The Internal Control Policy is reviewed every two years or at planned intervals whenever material changes occur to reflect the DBSA Group’s requirements.
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1. POLICY STATEMENT

The Board of Directors are ultimately accountable for the management of risk in the DBSA and are responsible for ensuring adequate and effective internal controls exist within the Bank. The DBSA Management and Staff enables the Board to meet these responsibilities by implementing standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for the Group’s assets as well as ensuring the sustainability of the Organisation.

Based on the information and explanations given by Management, Staff and the Assurance Providers, the Board is able to provide an opinion on the internal controls and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the Group’s assets and liabilities. In addition, the Board is required to confirm that nothing has come to their attention to indicate that a breakdown in the functioning of these controls, resulting in material loss to the Group, has occurred.

This policy therefore sets out the Key Internal Control objectives and principles for the DBSA as well as duties of the Board, Audit and Risk Committee, Management and Staff, Group Risk Assurance, Group Compliance, Internal Audit, External Audit and other Internal Control Functions at the Bank.

2. DEFINITIONS

Internal Control – Internal Control is a process, effected by an entity’s board of directors, management and other personnel, designed to reasonably manage risk affecting the achievement of objectives in the following categories:

- Effectiveness, efficiency, economy and accuracy of operations;
- Reliability and relevance of reporting;
- Compliance with applicable laws and regulations;
- Safeguarding of assets and resources; and
- Appropriate governance.

3. POLICY OBJECTIVES

Implementing a system of Internal Control allows the Organisation to stay focused on the strategic and business objectives, while operating within the confines of relevant policies, laws and regulation thereby minimising any surprises or risks along the way. Internal Control
enables the Organisation to deal more effectively with changing economic environments, leadership, priorities and evolving business models. It promotes efficiency and effectiveness of operations and supports reliable reporting and compliance with laws and regulations.

The Internal Control Policy is intended to strengthen the governance of the DBSA's Internal Control processes in its operations in accordance with the approved Enterprise Risk Management Framework (Annexure A). The objectives of the Internal Control Policy are to provide reasonable assurance to the DBSA Board that:

- Data and information published either internally or externally is accurate, reliable and timely;
- The actions of the DBSA Board, Management and Staff are in compliance with the Bank's policies, standards, procedures and all relevant laws and regulations;
- The Bank's assets and resources, including its people, systems and data/information bases are adequately protected;
- The Organisation's strategic and business objectives, plans and programs are achieved;
- The risk and gaps that could occur in the enterprise-wide risk management process of the Bank are managed;
- The exposures to loss which relate to their particular area of operations have been identified and evaluated; and
- Practical controlling processes have been established that require and encourage the Board, Management and Employees to carry out their duties and responsibilities in an efficient and effective manner.

4. SCOPE OF POLICY

The Internal Control Policy applies to all Staff (permanent, part time and contractors), Management and the Board of the DBSA Group, its Subsidiaries, Divisions and Business Units.
5. **KEY POLICY PRINCIPLES**

The overall objective of the Internal Control Policy is to ensure that adequate and effective internal controls are in place and that these controls are applied consistently throughout the Bank in order to protect the DBSA and its Stakeholders from potential losses. In this context the Internal Control Policy will be managed within the following key principles:

5.1 **CONTROL ENVIRONMENT**

The Board and Senior Management must establish the tone from the top regarding the importance of internal control and the expected standards of conduct. The Board is assisted in carrying out its duties by various Board Sub-Committees and Management Committees as set out in the DBSA Governance Framework (Annexure B). The control environment is the foundation for all the principles of the Internal Control Policy which provides the discipline, process and structure. The key principles relating to the control environment include:

- The DBSA Staff, Management and Board demonstrate a commitment to integrity and ethical values;
- The Board and its Sub-Committees are independent from Management and are responsible for providing oversight for the development and performance of internal controls;
- Management, with oversight from the Board, establishes structures, reporting lines and appropriate authority as per the Delegations of Authority, to ensure that the strategic and business objectives are achieved;
- Management and Staff establish and implement various policies and procedures to ensure the achievement of strategic and business objectives; and
- Management and Staff design and implement an appropriate system of internal control across all levels of the Organisation.

5.2 **RISK ASSESSMENT**

Risk assessment involves a dynamic and iterative process for identifying, analysing and managing risk exposures to achieving the strategic and business objectives. The key principles relating to the risk assessment include:

- Management sets clear strategic and business objectives with sufficient clarity to enable the identification and assessment of risk exposures;
- Risk exposures that may prevent the achievement of the strategic and business objectives are identified and managed; and
- Management and Staff identify and assess changes that could significantly impact the system of internal control.
5.3 CONTROL ACTIVITIES
Control activities may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorisations and approvals, verifications, reconciliations, physical controls, supervisory controls and performance reviews. Segregation of duties is typically built into the selection and development of control activities. The key principles relating to the control activities include:

- Management and Staff develop and implement control activities that contribute to the mitigation of risks to acceptable levels;
- Management and Staff develop and implement general control activities over technology to support the achievement of objectives; and
- Management and Staff develop and implement control activities that ensure the reliability of financial and non-financial reporting as well as compliance with applicable laws and regulations.

5.4 INFORMATION AND COMMUNICATION
Information is necessary for the DBSA to carry out its internal control responsibilities in support of the achievement of its strategic and business objectives. Communication occurs both internally and externally and provides the DBSA with the information needed to carry out day-to-day internal control activities. Communication enables all personnel to understand the internal control responsibilities. The key principles relating to the information and communication include:

- Relevant quality information to support the functioning of the internal control system;
- Internal communication of information, including objectives and responsibilities for internal control, necessary to support the function of the internal control system; and
- Communication with external stakeholders regarding matters affecting the functioning of the internal control system.

5.5 MONITORING ACTIVITIES
Monitoring includes the process for evaluating the DBSA internal control system and reporting any findings or deficiencies, as well as providing assurance to Senior Management and the Board. The key principles relating to the monitoring include:

- On-going evaluations to ensure that the system of internal controls is present and functioning as intended; and
- Independent reviews of the system of internal controls are evaluated by Internal and External Auditors and findings or deficiencies are reported to Senior Management and the Board.
6. **ROLES AND RESPONSIBILITIES**

6.1 **BOARD OF DIRECTORS**

The Board of Directors are ultimately accountable for the management of risk in the DBSA and are responsible for ensuring adequate and effective internal controls exist within the Bank. The Board shall, under the direction of the Chairperson of the Board of the Bank, be responsible to:

- Provide oversight on the general conduct of the operations of the Bank;
- Provide oversight on the maintenance of internal controls to minimise risk and financial loss to the Bank; and
- Ensure the fair presentation of interim and annual financial statements.

6.2 **AUDIT AND RISK COMMITTEE**

The Audit and Risk Committee is a subcommittee of the Board and provides assurance to the Board on the adequacy and effectiveness of the Group’s system of internal controls. The Audit Committee is responsible for understanding the DBSA’s major risk areas and ensuring that appropriate internal controls are in place to manage the risk exposures. Additionally, the Audit and Risk Committee is responsible for the monitoring of the control process and the adequacy of the system of internal control by reviewing internal and external audit reports. The Audit and Risk Committee’s key responsibilities are to:

- Be continually aware of the current areas of significant risk exposures and ensure DBSA Management is effectively managing the risks;
- Ensure that effective systems of internal controls are established and maintained to manage the risk exposures;
- Satisfy itself as regards to the integrity and prudence of management internal control systems, including the review of policies and/or practices;
- Determine whether the CEO or Executive Management are aware of any matters that might have a significant impact on the financial state of affairs of the DBSA; and
- Report on the effectiveness of internal controls and comment on its evaluation of the financial statements in the Bank’s annual report based on management assurance as well as internal and external assurance providers.
6.3 MANAGEMENT AND STAFF

Management and Staff are charged with the responsibility for establishing a network of processes with the objective of controlling the operations of the DBSA. The day-to-day responsibility for designing, implementing and monitoring controls in the business processes rests with Management. These areas and the required systems of internal controls are identified, documented and regularly reviewed by Management to ensure they are appropriate and relevant and that any necessary improvement is implemented. Management and Staff's key responsibilities are to:

- Plan, develop, implement and monitor the required business policies, processes and systems to achieve the Bank's objectives and strategies;
- Identify, quantify, control and manage all exposures to loss and risks within the Bank in a prudent manner;
- Implement and maintain adequate systems of internal control and monitor their continued effectiveness;
- Ensure that all systems and processes are efficient, effective and economical;
- Safeguard and maintain the quality of the assets of the Bank;
- Monitor the performance of all aspects of the business activities of the Bank on a regular basis;
- Implement those measures as recommended by the Risk Functions, Internal and External Auditors as well as other Assurance Providers which, in their opinion will enhance controls at reasonable cost;
- Comply with the Delegations Framework;
- Ensure that legislation, policies and procedures are strictly complied with;
- Ensure compliance with the system of internal control and the Code of Ethics;
- Ensure compliance with policies, standards, procedures and applicable legislation and regulations; and
- Provide assurance to the Chief Executive Officer and Board of Directors on the effectiveness of the internal control system through the Management Assurance Letter (Annexure C) on an annual basis. This assurance letter will be phased in to the Division over a period of 12 months.
6.4 GROUP RISK ASSURANCE
The Group Risk Assurance (GRA) Division is responsible for ensuring that an integrated and effective Enterprise-wide Risk Management Framework is maintained in the Bank. The Division consists of a number of units, including the Enterprise Risk, Credit Risk, Operational Risk, Internal Audit, Legal and Compliance functions, which together are responsible for risk integration in a well-defined control environment across all businesses of the Bank. The GRA Division’s key responsibilities are to:

- Coordinate the implementation of Enterprise-wide Risk Management in the Bank;
- Develop and refine risk management policies, methodologies, systems, processes, models and other tools;
- Facilitate the identification and assessment of significant Bank-wide risk exposures; and
- Monitor Bank-wide risk exposures and report on these risk exposures through the Audit and Risk Committee to the Board of Directors.

6.5 GROUP COMPLIANCE
The DBSA’s Group Compliance function supports Management in managing compliance risk in the Organisation. It monitors whether effective compliance policies and procedures are implemented and applied and whether corrective action is taken when compliance breaches are identified. The Group Compliance’s key responsibilities are to:

- Ensure that the compliance process is running effectively and to monitor that the statutory, regulatory and supervisory requirements are adhered to;
- Supports Management in managing compliance risk in the organisation;
- Monitors whether effective compliance policies and procedures are followed and whether corrective action is taken when compliance breaches are identified;
- Identifies, assesses, advises on, monitors and reports on the Bank’s compliance risk; and
- Provide compliance risk management tools to Management which include compliance manuals, compliance risk profiles, compliance risk management plans, compliance opinions and compliance control adequacy and effectiveness reports.

6.6 INTERNAL AUDIT
The role of the Internal Audit Unit (IAU) is to provide independent assurance to the DBSA that exposure to significant strategic, operational, financial, procedural and reputational risks are
adequately determined and mitigated. Furthermore, the Internal Audit Unit assists the DBSA to strengthen its internal governance and to ensure that it performs its roles and responsibilities effectively, efficiently and economically. The key responsibilities of IAU are to:

- Provide assurance to the Audit Committee on the adequacy and effectiveness of internal controls using a combined assurance model;
- Perform independent and objective examinations and reviews of the effectiveness of the risk management, control, and governance processes of the DBSA and present analyses and advice to DBSA Management and Staff for improvement;
- Review the DBSA’s business processes and work practices to help ensure that they are structured and conducted in a manner that enables the DBSA to fulfil its objectives effectively and efficiently;
- Conduct or assist in internal investigations requested by Management;
- Support the external audit process and the activities of the Audit Committee;
- Support the Chief Executive Officer in the discharge of his duties in accordance with the PFMA and Treasury regulations; and
- Provide a value added consulting service within the parameters of independence to ensure that risks are identified and controls are considered in a pro-active and preventive manner.

6.7 EXTERNAL AUDIT

The objectives of an external audit are to perform an independent examination of the financial systems and records of the Bank. The key responsibilities of External Audit are to:

- Express an opinion in all material respects as to whether the annual financial statements fairly present the financial position, results of operations and cash flow information of the DBSA, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, the Public Finance Management Act (PFMA), the Treasury Regulations and the Development Bank of Southern Africa Act;
- Evaluate compliance with the relevant key statutes and regulations in respect of financial disciplines and reporting;
- Assess the integrity of the underlying accounting systems on which the financial statements and the amounts contained therein are based;
- Report any significant deficiencies in the design or operation of internal controls which come to their attention during the audit;
- Make a contribution to the broader business issues facing the Bank, and in particular its risk management process and practices;
- Work pro-actively with Management and the Audit Committee without compromising the auditor's professional integrity, objectivity or independence;
- Consult with Internal Audit to ensure effective use of internal/external audit resources. This will minimise duplication as well as identify risk gaps not being addressed; and
- Review the interim and annual results of the DBSA.
INTERNAL CONTROL POLICY APPROVAL

[Signature]

CHIEF EXECUTIVE OFFICER

09/12/2013

DATE
ANNEXURE C - DBSA DIVISIONAL MANAGEMENT ASSURANCE LETTER

To: [Enter name]
Chief Executive Officer
DBSA Group

From: [Enter name and title]
Division: [Enter division name]
Date: [Enter date]

Subject: MANAGEMENT ASSURANCE LETTER

In accordance with the requirements of the DBSA Internal Control Policy, the DBSA Management is responsible for implementing standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for the Group’s assets as well as provide full disclosure of all known facts to ensure the sustainability of the Organisation.

Based on the information and explanations given by Management and Assurance Providers, the Board of Directors are able to provide an opinion on the accounting controls and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the Group’s assets and liabilities and overall sustainability of the Organisation.

We therefore confirm the following:

1. To the best of our knowledge, all significant risks and associated control measures have been identified, and amongst others the following was taken into consideration when the risk register was completed:
   - All Divisional processes
   - Loss events/incidents reported
   - Reported audit findings
   - Key Risk indicator results

Yes: ☐ No: ☐

(Please indicate with a √. If no provide an explanation below)

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DBSA INTERNAL CONTROL POLICY – FEBRUARY 2013
2. Action plans as well as responsibility have been identified for all significant risks exposures.
   Yes: □   No: □
   (Please indicate with a √ if no provide an explanation below)

3. Risks have been assessed and rated.
   Yes: □   No: □
   (Please indicate with a √ if no provide an explanation below)

4. The internal controls within the business areas for which I am responsible are satisfactory
   and were operating effectively throughout the period.
   Yes: □   No: □
   (Please indicate with a √ if no provide an explanation below)

5. The quality of the accounting records within my area of responsibility is sufficient to
   materially provide complete, accurate and valid accounting information for financial
   reporting purposes.
   Yes: □   No: □
   (Please indicate with a √ if no provide an explanation below)
6. The operations of the Division are conducted in accordance with all applicable laws and regulations and the Division is responsible for the prevention and detection of non-compliance.

Yes:  [ ]  No:  [ ]

(Please indicate with a √ if no provide an explanation below)

7. All transactions undertaken in my area of responsibility were in the normal course of business, within approved authorisation limits and at arm’s length.

Yes:  [ ]  No:  [ ]

(Please indicate with a √ if no provide an explanation below)

8. All aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance have been complied with and have been properly reflected in the accounting records, and where material (or potentially material) to the financial statements, have been disclosed.

Yes:  [ ]  No:  [ ]

(Please indicate with a √ if no provide an explanation below)
9. All Company policies and procedures, including the policy on dealing with gifts from suppliers and customers, the code of ethics and policy on information security have been complied with. Known cases of non-compliance have been dealt with.
Yes: ☐ No: ☐
(Please indicate with a ✓. If no provide an explanation below)

10. All conflicts of interest and noted interests in existing contracts have been declared/advised to the Company Secretary and have been recorded in the official register of interests.
Yes: ☐ No: ☐
(Please indicate with a ✓. If no provide an explanation below)

11. All instances of identified fraud or suspicious transactions have been reported to Internal Audit for follow-up.
Yes: ☐ No: ☐
(Please indicate with a ✓. If no provide an explanation below)

We have fully disclosed all known facts to the best of our knowledge and belief.

Signed:

________________________  ________________________
Group Executive                    Date:
4.1. DBSA Internal Control Policy

The policy was tabled for a review. It was noted that what was added was the aspect of a management assurance letter for Executives to sign off annually. The letter was designed for the Executives to be accountable for risk management and control measures within their divisions.

Committee Resolution

The Committee approved the Internal Control Policy, subject to an amendment of phasing in this requirement gradually to enable managers to confirm their understanding of the control measures of their respective divisions. The amendment should be made prior the document being presented to the Audit and Risk Committee.

SIGNED AT MIDRAND on this the 04th day of December 2013

Ms Bathabile Sowazi
Company Secretary